

Name _____

UMID _____

Final Exam
December 19, 2014
Answers

Answer on these sheets. Note that the last page of the exam (page 8) is intentionally left blank for you to use if you run out of space to answer any of the questions, although I do not intend that you should need it, especially for the types of questions asked on this exam.

The exam has a total of 80 points.

1. (24 points) The WTO includes many rules. Some rules say what member countries *must* do, some what they *must not* do, and some rules say things that they *may* (but need not) do, so long as they do them in specified ways. For each of the rules listed below, indicate by circling the correct response which category each belongs to.

Rule	Must	Must Not	May	Not a WTO rule	
Reduce tariffs on imports	Must	Must Not	May	Not a WTO rule	<i>Not a WTO rule</i>
Raise tariffs on imports	Must	Must Not	May	Not a WTO rule	<i>May</i>
Levy anti-dumping duties against dumped imports	Must	Must Not	May	Not a WTO rule	<i>May</i>
Subsidize exports	Must	Must Not	May	Not a WTO rule	<i>Must Not</i>
Treat imported goods, once inside the country, the same as domestically produced goods	Must	Must Not	May	Not a WTO rule	<i>Must</i>
Set tariffs above “bound” levels	Must	Must Not	May	Not a WTO rule	<i>Must Not</i>
Abide by decision of Dispute Settlement Mechanism or suffer retaliation	Must	Must Not	May	Not a WTO rule	<i>Must</i>
If levying safeguards a tariff, apply it to imports from all countries	Must	Must Not	May	Not a WTO rule	<i>Must</i>
If levying countervailing duty, apply it to imports from all countries	Must	Must Not	May	Not a WTO rule	<i>Must Not</i>
Enact and enforce intellectual property rights	Must	Must Not	May	Not a WTO rule	<i>Must</i>
Enact and enforce adequate labor standards	Must	Must Not	May	Not a WTO rule	<i>Not a WTO rule</i>
If levying an anti-dumping duty, set it equal to the minimum of the dumping margin and the injury margin	Must	Must Not	May	Not a WTO rule	<i>May</i>

2. (8 points) Which of the following units of the European Union,
 A. the European Commission,
 B. the European Council, and/or
 C. the European Parliament,

do the following? Answer by inserting one (or more, if two units participate) of the letters “A”, “B”, and “C” in the blanks to the right of each function:

Function

Set tariffs on imports	<u> <i>B & C</i> </u>
Authorize negotiation of trade agreements	<u> <i>B</i> </u>
Negotiate trade agreements	<u> <i>A</i> </u>
Approve trade agreements	<u> <i>B & C</i> </u>

3. (9 points) Use the graph below of domestic supply and demand for a good in a small open economy to calculate the following:

a) If the world price is \$3 and the import tariff is 100%,

The domestic price \$6.00

The quantity of imports 8,000

The tariff revenue \$24,000

b) If the world price is \$8 and the import tariff is \$4.00 per unit

The domestic price \$9.00

The quantity of the good demanded domestically 6,000

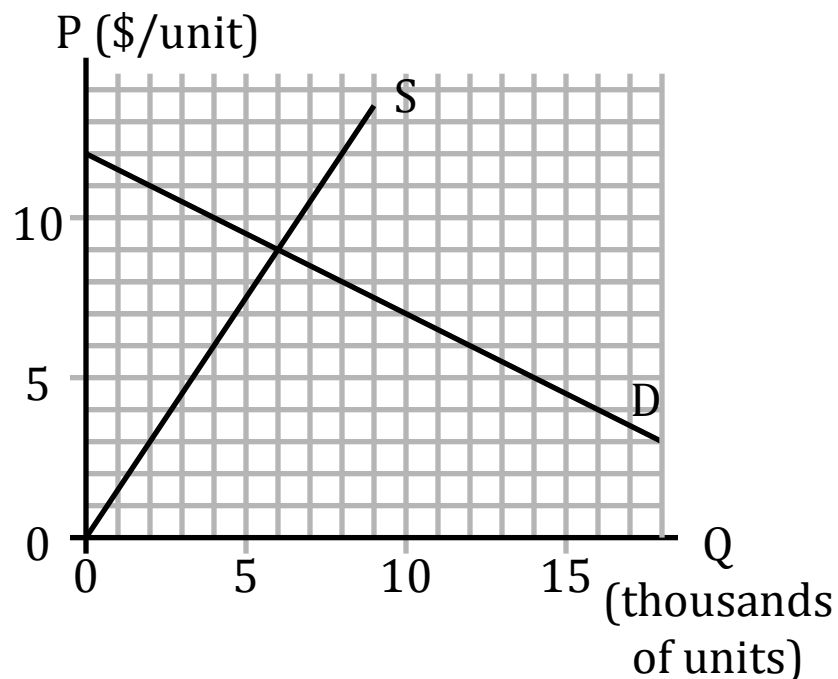
The tariff revenue \$0

c) If the world price is \$12 and the import tariff is \$1.00 per unit

The domestic price \$12.00

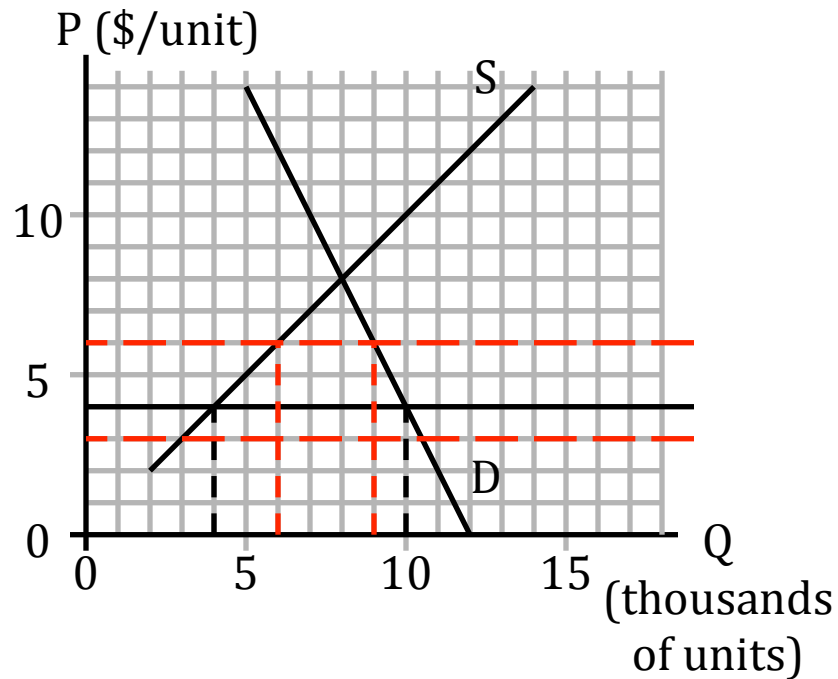
The quantity of the good supplied domestically 8,000

The tariff revenue \$0



4. (12 points) The graph below shows domestic supply and demand for a good in a large country. Initially it has free trade and faces a world price of \$4/unit. It then places a 100% tariff on imports of the good, and as a result the world price falls to \$3/unit. Draw into the graph the equilibria first with free trade and then with the tariff. Then use the labeled amounts in the graph to calculate the following:

The free trade quantity of imports	<u>6,000</u>
The quantity of imports with the tariff	<u>3,000</u>
The tariff revenue	<u>\$9,000</u>
The gain (+) or loss (-) to demanders due to the tariff	<u>-\$19,000</u>
The gain (+) or loss (-) to the importing country as a whole due to the tariff	<u>\$0</u>

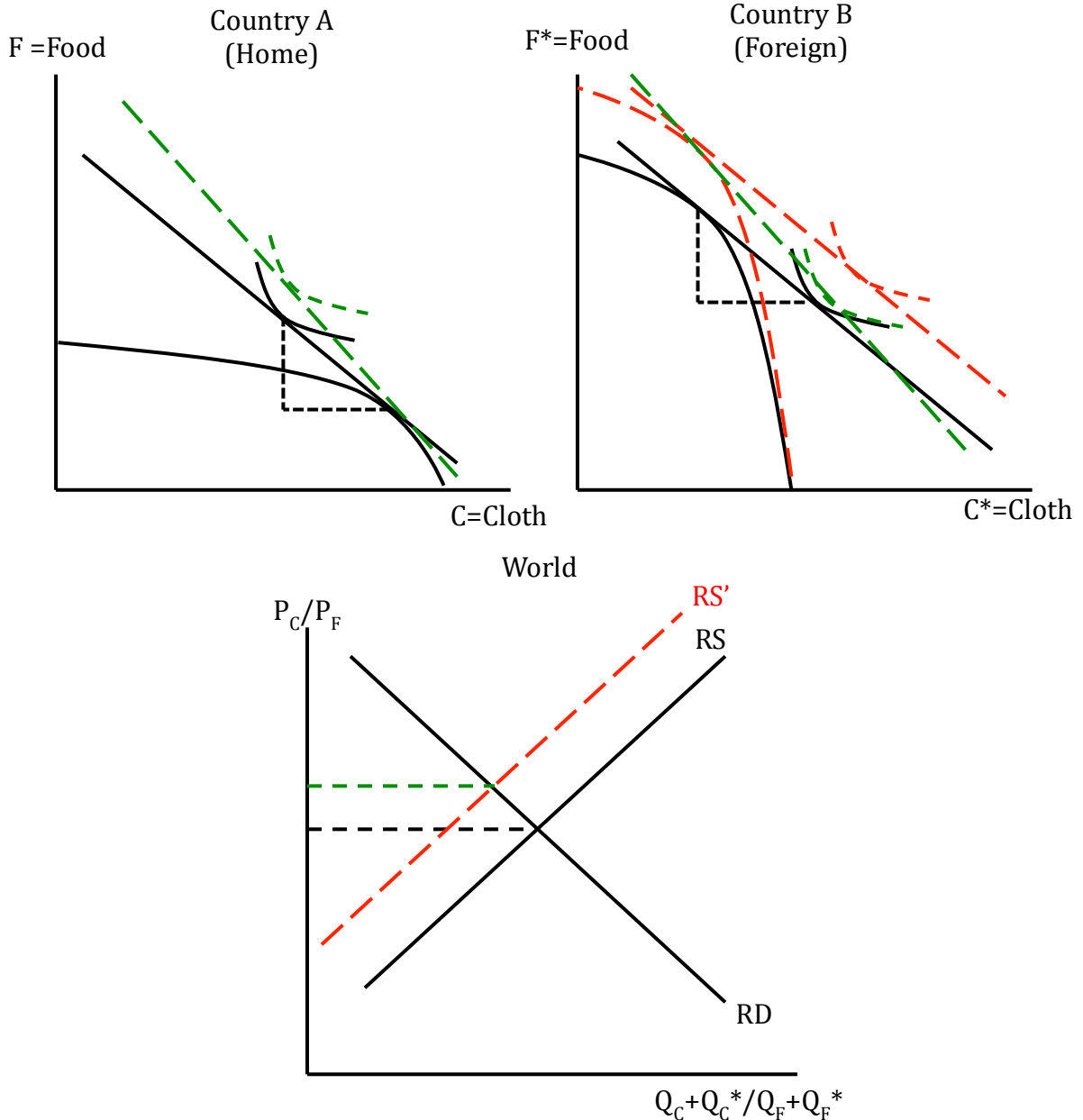


5. (10 points) The table below shows a variation of the payoffs (profits) to US-based Boeing and EU-based Airbus when they produce (P) and do not produce (N) in the export-duopoly game between them that we saw in class but with different numbers:

		Airbus	
		P	N
Boeing	P	-20 -10	0 110
	N	80 0	0 0

- a) If initially Boeing is already producing, will Airbus then choose to produce or to not produce? Not produce
- b) If the EU now provides Airbus an export subsidy of 15, and if Boeing is still producing, will Airbus then choose to produce or to not produce? Not produce
- c) If the EU provides Airbus an export subsidy of 25, and a new equilibrium is reached, what will be the profit or loss of Airbus? 105
- d) If the EU's export subsidy to Airbus of 25 is now increased to 30, what does this do to the welfare of the EU as a whole, compared to the equilibrium in part (c)? No change
- e) Why? Because the increased subsidy does not change the profit that Airbus derives from the market (which was given in the table), so the extra subsidy therefore just adds to both the benefit of Airbus and the cost to the EU government. Since both of these are part of the EU, these amounts just cancel out.

6. (8 points) Does a country benefit or lose from growth in the economy of the country with which it trades? To answer this question in the particular case of the Standard Model shown below, draw into the figures what will happen to the home country if the foreign country's ability to produce food becomes larger by some fixed percentage for all possible levels of output of cloth. Then show what this will do to world relative supply and demand, the equilibrium world relative price, and the welfare of the home country.



In a few words, has the home country been made better or worse off by this change, and why?

Ans: It is better off, because the increased supply of food abroad has lowered food's price on the world market, increasing the relative price of the home country's export, cloth, and thus improving its terms of trade.

7. (9 points) Canada recently concluded a free trade agreement with the European Union. Assuming that it goes into effect before any free trade agreement between the EU and the US, and that the only relevant current FTA is NAFTA, which countries gain and which lose (if any) from the following changes in trade if they occur due to the Canada-EU FTA? (There's no need to say who gains and loses *within* countries.)

- a) Canada imports from the EU products that it currently produces in Canada

Canada and the EU both gain

- b) Canada imports from the EU products that it currently imports from the US

Canada and the EU both gain and the US loses

- c) Canada imports from the EU products that it currently imports from Japan

Canada and Japan both lose and the EU gains

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